

Message Text

SECRET

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EXDIS

E.O. 11652: GDS
TAGS: EFIN, JO
SUBJECT: TALK WITH PRIME MINISTER -- GOJ BUDGET AND TAXES

SUMMARY: THE GOJ HAS PUBLISHED A RECORD (REGULAR) BUDGET OF ALMOST \$750 MILLION. PRIME MINISTER BADRAN HAS TOLD ME THAT ABOUT ONE-THIRD OF THIS AMOUNT IS UNCOVERED BY ASSURED REVENUES. EVEN WITH RESORT TO MAXIMUM DOMESTIC BORROWING, RESUMPTION OF ALMOST FULL RABAT SUBSIDIES (\$171 MILLION IN 1975, THE ONLY YEAR THEY HAVE BEEN RECEIVED) WILL BE NECESSARY TO AVERT A BUDGET CATASTROPHE IN 1977. WHILE SOME INCREASED TAXIATION IS PALNNED, LEGISLATION FOR IT HAS NOT BEEN PASSED, AND THE MEASURES PROPOSED DO NOT STRIKE ONE AS THE KIND OF TOUGH STEPS APPROPRIATE TO A GOVERNMENT THAT FACES A HUGE BUDGET DEFICIT FOR THE SECOND YEAR RUNNING. THE LARGE DEFICIT HOWEVER IS PROBABLY INTENDED IN GOOD PART TO SECURE ADDITIONAL EXTERNAL ASSISTANCE PARTICULARLY FROM JORDAN'S OIL-RICH NEIGHBORS. END SUMMARY.

1. IN COURSE OF CONVERSATION WITH PRIME MINISTER
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BADRAN, I RAISED THE QUESTION OF THE CURRENT GOJ BUDGET (FULL REPORT ON 1977 BUDGET SEPTTEL). I NOTED THAT IT APPEARED JORDAN WOULD HAVE CLOSE TO A \$200 MILLION DEFICIT BUILT INTO THIS YEAR'S BUDGET. BADRAN QUICKLY CORRECTED ME AND SAID THAT THE DEFICIT WOULD BE CLOSER TO \$270 MILLION. HE THEN TICKED OFF THE PRINCIPAL MEANS OF COVERING THIS DEFICIT INCLUDING A

PROGRAMMED DEFICIT OF \$45 MILLION, AN ADDITIONAL \$45 MILLION TO BE RAISED BY CENTRAL BANK BORROWING, \$30 MILLION TO BE SOUGHT BY OTHER LOANS AND \$156 MILLION IN "OTHER" FOREIGN ASSISTANCE WHICH WAS INCLUDED AS ESTIMATED REVENUES IN THE BUDGET DOCUMENT BUT FAR FROM BEING FIRMLY IN HAND.

2. REGARDING THE "OTHER" FOREIGN ASSISTANCE, BADRAN MENTIONED THAT THE CONFRONTATION STATES WOULD MEET WITH SOME OF THE PRINCIPAL RABAT SUBSIDY DONORS IN RIYADH ON JANUARY 9. HE EXPECTED TO ATTEND ALONG WITH EGYPTIAN DEPUTY PRIME MINISTER AND FOREIGN MINISTER ISMAIL FAHMI AND HIS SYRIAN COUNTERPART KHADDAM. HE NOTED THAT IN ADDITION TO THE SAUDIS, KUWAIT, QATAR AND THE EMIRATES WOULD ALSO ATTEND. HE DESCRIBED THIS AS A MAKE OR BREAK SESSION ON RABAT SUMMIT PAYMENTS IN WHICH SYRIA AND JORDAN HAD ALREADY AGREED TO MAKE A MAJOR EFFORT TO OBTAIN FOR 76-77 THE SAME AMOUNT THAT WAS OBTAINED IN 75-76 -- THIS IS FOR JORDAN \$171 MILLION. BADRAN THOUGHT THAT THEY WOULD HAVE SOME SUCCESS, BUT WAS CAREFUL TO INDICATE THAT IT COULD NOT BE ASSUMED THAT CONFRONTATION STATES WOULD GET THIS AMOUNT OR ALL THAT THEY HAD RECEIVED IN THE PAST. MOST OF WHATEVER JORDAN MIGHT RECEIVE IN RABAT SUBSIDIES WILL, BADRAN THUS IMPLIED, ENTER GENERAL REVENUES INSTEAD OF BEING SPECIFICALLY DESIGNATED FOR MILITARY EXPENDITURES.

3. IN THIS CONNECTION HE NOTED THAT WHILE JORDAN'S
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PRESENT BUDGET POSITION WAS EXTREMELY PRECARIOUS AND THAT VERY IMPORTANT POLITICAL CONSIDERATIONS HAD PREVENTED MANY MORE CUTS IN THE EARLIER-PROJECTED BUDGET (PRESENT BUDGET IS 30 PERCENT HIGHER THAN LAST YEAR), THE SYRIAN POSITION WAS MUCH WORSE. HE SAID THAT IN HIS MEETINGS WITH SYRIAN PRIME MINISTER KHULEIFAWI, LATTER HAD TICKED OFF NUMEROUS AREAS WHERE SYRIAN GOVERNMENT WAS STYMIED IN ITS EFFORTS TO MEET PRESENT DEVELOPMENT AND OTHER FUNDING REQUIRMENTS. BADRAN ALSO NOTED THAT THE EGYPTIAN POSITION WAS EQUALLY SERIOUS, IF NOT MORE SO. HE SAID THE SYRIANS WERE HIS PRIMARY SOURCE FOR THE VIEW THAT THE EGYPTIAN SITUATION WAS EVEN MORE SRIIOUS THAN THAT IN SYRIA.

4. TURNING BACK TO THE JORDANIAN BUDGET, BADRAN SAID HE BELIEVED THAT CENTRAL BANK BORROWING AND OTHER FOREIGN LOANS FOR THE RECURRING BUDGET, WITH A CONSIDERABLE PUSH FROM THE GOVERNMENT, COULD ACHIEVE THEIR TARGETS. IN ADDITION, THE GOVERNMENT HAD PRE-

PARED EIGHT NEW TAX LAWS WHICH WOULD BE INTRODUCED GRADUALLY. CORPORATE INCOME TAXES WOULD BE RAISED GRADUALLY OVER NEXT 12 MONTHS. WATER FEES, AFTER AN INITIAL ALLOWANCE FOR FAMILIES CLOSE TO THE POVERTY LINE, WOULD BE TRIPLED. I ASKED BADRAN IF THESE REVENUE INCREASES ARE INCLUDED IN THE ANNOUNCED BUDGET. HE SAID THAT CURRENT BUDGET INCLUDES A MODEST 10 PERCENT INCREASE IN TOTAL DOMESTIC REVENUES ON THE BASIS OF MORE EFFICIENT COLLECTION. PROJECTED INCOME TAX INCREASES FROM \$27 MILLION IN 1976 TO \$45 MILLION REFLECT THE NEW TAXATION PROPOSALS AND ARE ALSO INCLUDED IN THE ANNOUNCED BUDGET. OTHER PLANNED INCREASES ARE NOT REFLECTED AND WOULD BE WINDFALL REVENUES IN BUDGETARY TERMS.

5. BADRAN ALSO NOTED THAT RECENT OIL PRICE INCREASES WOULD HIT JORDAN. HE HAD TO CONTEMPLATE A PRICE
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INCREASE IN FUELS TO COVER THIS. IN ADDITION, SUBSIDIES OF \$40 MILLION PER YEAR HAD FALLEN FAR SHORT OF JORDAN'S NEEDS. IN EFFECT, TRANSIT TRUCK TRAFFIC TO THE GULF HAD DRIVEN UP FUEL CONSUMPTION IN JORDAN TO A POINT WHERE JORDANIAN EXPERTS ESTIMATE THAT SAUDI SUBSIDY FOR 1976 SHOULD HAVE BEEN \$75 MILLION AND \$100 MILLION THIS YEAR. BADRAN SAID HE WILL ALSO HAVE TO RAISE THIS ISSUE WITH SAUDIS IN RIYADH ON JANUARY 9.
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